

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other			Local Government Name Springport/Clarence Regional Fire Board	County Jackson
Audit Date 2/28/05	Opinion Date 7/14/05	Date Accountant Report Submitted to State: 7/29/05		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

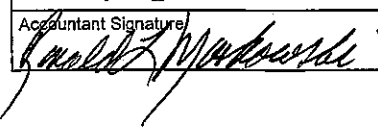
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Markowski & Company CPA's			
Street Address 2880 Spring Arbor Road		City Jackson	State MI
Accountant Signature 		ZIP 49203	Date 7/29/05

SPRINGPORT/CLARENCE REGIONAL FIRE BOARD

FINANCIAL STATEMENTS

FEBRUARY 28, 2005

SPRINGPORT/CLARENCE REGIONAL FIRE BOARD

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	2
BASIC FINANCIAL STATEMENTS:	
FUND FINANCIAL STATEMENTS:	
GOVERNMENTAL FUNDS:	
Balance Sheet – Governmental Funds/Statement of Net Assets	5
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds/Statement of Activities	6
NOTES TO FINANCIAL STATEMENTS	7
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General Fund	11
ADDITIONAL INFORMATION	
Statement of Activities - Detail	12

MARKOWSKI & COMPANY

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CERTIFIED PUBLIC ACCOUNTANTS
MICHIGAN ASSOCIATION OF
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ESTATE PLANNING COUNCIL
OF SOUTH CENTRAL MICHIGAN

INDEPENDENT AUDITOR'S REPORT

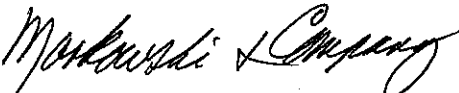
Board of Directors
Springport/Clarence Regional Fire Board
Springport, Michigan

We have audited the accompanying financial statements of the **Springport/Clarence Regional Fire Board** as of February 28, 2005, and for the year then ended. These financial statements are the responsibility of the Springport/Clarence Regional Fire Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Springport Clarence Regional Fire Board as of February 28, 2005, and the respective changes in financial position for the year then ended in conformity with auditing standards generally accepted in the United States of America.

The Management's Discussion and Analysis, required supplementary information, and additional information presented on pages 2-4, 11 and 12 respectively are not a required part of the basic financial statements but are supplementary financial information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



MARKOWSKI & COMPANY CPAs
July 14, 2005

Management's Discussion and Analysis

Introduction

This discussion and analysis of the Springport/Clarence Regional Fire Board's financial performance provides an overview of the financial activities for the fiscal year ended February 28, 2005.

GASB 34

This is the first year that the Springport/Clarence Regional Fire Board (SCFB) complied with the requirements of GASB 34, a statement of accounting for governmental units issued by the Governmental Accounting Standards Board.

Since the Springport/Clarence Regional Fire Board is now adhering to GASB 34, it will continue to maintain its previous modified accrual accounting system.

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Fire Board as a whole and present a longer-term view of the Fire Board's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending.

There are advantages to having two levels of financial reporting. The new accrual-based method mirrors the private sector and is accessible to anyone who might come from a business background. It tends to show encumbered purchases, i.e. orders not yet paid, and liabilities, such as accumulated sick leave and vacation leave, better than the modified accrual method, and allows us to depreciate certain types of fixed assets as they decline in value over time (see Note 3). On the other hand, modified accrual accounting shows us what we have "in hand" and allows us to do comparisons with past years more easily.

Revenue Issues

Revenue is generated in two ways, one through fixed costs and the other by rescue and fire runs. The quarterly fixed costs are divided between Springport and Clarence Townships. The revenue from fire and rescue runs is based on the amount of runs in each township. The townships that are covered by the fire and rescue runs are Springport, Clarence and Brookfield.

Management's Discussion and Analysis

	Governmental Activities 2005	
Assets	\$	106,479
Liabilities		15,048
Net Assets		
Invested in Capital Assets, net		42,005
Unrestricted		49,426
Total Net Assets	\$	91,431
Revenues		
Contributions from Local Units	\$	37,000
Grants		39,886
Fire and Rescue Runs		77,000
Interest Income		159
Other revenues		681
Total revenues		154,726
Expenditures		
Public Safety		107,091
Change in Net Assets	\$	47,635

This is the first year that GASB 34 is implemented. For this reason comparative year information is not required.

The Springport/Clarence Regional Fire Board's Fund

Unrestricted net assets—the part of net assets that can be used to finance day to day operations, increased by \$47,635 for the governmental activity. This represents an increase of 92%. The major portion on the increase was due in part to the \$39,886 in grant money received for purchase of capital assets. The current level of unrestricted net assets for our governmental activities stands at \$20,754 or about 19% of expenditures. Fund balance also increased by \$5,630. We have enough assets to cover a third of next year's expenses and feel we are in good shape.

Management's Discussion and Analysis

Budget Management

The budget is determined based on our past expenditures along with our current estimates of expenditures based on past experience. This year the budget was based on our current needs. One major change was for building rent which we increased by \$4,800 along with other building expenses like insurance for \$300 and building maintenance of \$500.

Local Growth

The growth rate for Springport and Clarence communities is slow due in part to their location from the larger cities.

Financial Planning

The fire board is responsible for present and future financial obligations that the fire department requires. The fire board is made up of 2 members from each township and a fifth member selected by the board. When planning our finances we look at age of assets, increased insurance costs, and other expenses for which we base our future expenditures. The funding we receive is adequate for our current needs. We have also applied for grants which helps the fire department in its purchase of new equipment.

BASIC FINANCIAL STATEMENTS

FEBURARY 28, 2005

SPRINGPORT/CLARENCE REGIONAL FIRE BOARD
GOVERNMENTAL FUNDS BALANCE SHEETS/STATEMENT OF NET ASSETS
FEBRUARY 28, 2005

	GOVERNMENTAL FUND	RECONCILING ITEMS	STATEMENT OF NET ASSETS
ASSETS:			
Cash and cash equivalents	\$ 26,020	\$ -	\$ 26,020
Accounts receivable	17,700	-	17,700
Prepaid insurance	20,754	-	20,754
Equipment, (net depreciation)	-	42,005 (a)	42,005
	<hr/>	<hr/>	<hr/>
Total assets	\$ 64,474	\$ 42,005	\$ 106,479
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES:			
Accounts payable	\$ 4,225	\$ -	\$ 4,225
Accrued payroll	10,823	-	10,823
	<hr/>	<hr/>	<hr/>
Total liabilities	15,048	-	15,048
	<hr/>	<hr/>	<hr/>
FUND BALANCES:			
Reserved	20,754		
Unreserved/Undesignated	28,672		
	<hr/>		
Total fund balance	49,426		
	<hr/>		
Total liabilities and fund balance	\$ 64,474		
	<hr/> <hr/>		
NET ASSETS:			
Invested in capital assets			42,005
Unrestricted			49,426
			<hr/>
Total net assets			\$ 91,431
			<hr/> <hr/>

(a) Capital assets are expensed in governmental fund financial statements; the acquired assets are capitalized and depreciated in the government-wide statement of net assets.

The accompanying notes are an integral part of these financial statements.

SPRINGPORT/CLARENCE REGIONAL FIRE BOARD
GOVERNMENTAL FUNDS BALANCE SHEETS/STATEMENT OF NET ASSETS
FEBRUARY 28, 2005

	GOVERNMENTAL FUND	RECONCILING ITEMS	STATEMENT OF ACTIVITIES
REVENUES			
Local unit contributions	\$ 37,000	\$ -	\$ 37,000
Fire and rescue	77,000	-	77,000
Interest income	159	-	159
Miscellaneous	681	-	681
Grants	39,886	-	39,886
Total revenues	<u>154,726</u>	<u>-</u>	<u>154,726</u>
EXPENDITURES			
Wages and operating expenses	<u>149,096</u>	<u>(42,005) (a)</u>	<u>107,091</u>
EXCESS OF REVENUE OVER EXPENDITURES	5,630	42,005	47,635
FUND BALANCES, Net Assets - Beginning	<u>43,796</u>	<u>-</u>	<u>43,796</u>
FUND BALANCES, Net Assets - Ending	<u><u>\$ 49,426</u></u>	<u><u>\$ 42,005</u></u>	<u><u>\$ 91,431</u></u>

(a) Capital outlays are expensed in governmental fund financial statements; the acquired assets are capitalized and depreciated in the statement of activities. Depreciation for the year ended February 28, 2005 was \$2,401. Capital outlays included items which were capitalized at their cost of \$44,406.

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

SPRINGPORT/CLARENCE REGIONAL FIRE BOARD
INDEX TO NOTES TO THE FINANCIAL STATEMENTS

	<u>PAGE NUMBER</u>
NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:	
A Description of Organization's Operations	7
B Basis of Accounting	7
C Budget and Budgetary Accounting	7
D Fixed Assets	7
E Fund Equity	8
F Estimates	8
G Risk Financing	8
NOTE 2 – CASH	9
NOTE 3 – PROPERTY, PLANT AND EQUIPMENT	9
NOTE 4 – LEASE COMMITMENTS	10
NOTE 5 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY	10
NOTE 6 – PURCHASE OF NEW FIRE TRUCKS	10

SPRINGPORT/CLARENCE REGIONAL FIRE BOARD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Description of Organization's Operations:

The Springport/Clarence Regional Fire Board was formed October 12, 1976 under an agreement between the Village of Springport, Springport Township and Clarence Township. The purpose of the agreement was to organize a fire department with sufficient equipment to provide fire protection to the Village of Springport, Springport Township and Clarence Township. In September 2003, the Village of Springport withdrew its participation from the Regional Fire Board. The remaining two Townships agreed to continue the fire department, drafting new by-laws and renaming it the Springport/Clarence Regional Fire Board.

The Springport/Clarence Regional Fire Board is governed by a five member board. Each township board appoints two members; the fifth member is appointed by the four township appointed members.

B. Basis of Accounting:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

C. Budget and Budgetary Accounting:

Formal budgetary integration is employed as a management control device during the year for the General Fund. The budget was adopted on a cash basis before GASB 34 was implemented. The difference between the cash basis and modified accrual, which is consistent with the Fire Board's financial reporting, will be an immaterial amount. The budget can be amended by a majority vote of the Fire Board.

D. Fixed Assets:

Fixed assets used in governmental fund type operations are accounted for in the General Fixed Assets Account Group.

Property, plant, and equipment acquired or constructed for general governmental operations are recorded as expenditures in the fund making the expenditure and capitalized at cost in the General Fixed Assets Account Group.

SPRINGPORT/CLARENCE REGIONAL FIRE BOARD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

D. Fixed Assets: (Continued)

Property, plant, and equipment is stated at cost. Where cost could not be determined from the available records, the insured value was used to record the estimated value of assets. Assets acquired by gift or bequests are recorded at their fair market value at the date of transfer.

E. Fund Equity:

The unreserved fund balances for governmental funds represent the amount available for financing future operations.

A portion of the fund balance has been reserved and not available for spending. This amount equals the prepaid insurance premiums paid during the fiscal year.

F. Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

G. Risk Financing:

The Fire Board is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the year.

SPRINGPORT/CLARENCE REGIONAL FIRE BOARD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – CASH:

The Board's Treasurer is authorized by state law and a resolution from the Board of Trustees to invest surplus funds as follows:

Certificates of deposit, savings accounts, deposit accounts or depository receipts of a federally insured bank or credit union, but only if the bank, or credit union meets all criteria as a depository of public funds contained in state law.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Township's cash and cash equivalents are as follows:

<u>CASH AND INVESTMENTS</u>	<u>FINANCIAL STMT. AMOUNT</u>	<u>BANK BALANCE</u>
Insured (FDIC)	\$ 26,020	\$ 32,167
Uninsured	<u>-</u>	<u>-</u>
	<u><u>\$ 26,020</u></u>	<u><u>\$ 32,167</u></u>

NOTE 3 – PROPERTY, PLANT AND EQUIPMENT:

This year the Fire Board decided to capitalize and depreciate only items bought this year and thereafter in according with GASB 34. Activity for fixed assets which are capitalized by the Fire Board is summarized below:

	<u>BALANCE 03/01/04</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE 02/28/05</u>
Machinery & equipment	\$ -	\$ 44,406	\$ -	\$ 44,406
Accumulated Depreciation	<u>-</u>	<u>-</u>	<u>2,401</u>	<u>(2,401)</u>
Total	<u><u>\$ -</u></u>	<u><u>\$ 44,406</u></u>	<u><u>\$ 2,401</u></u>	<u><u>\$ 42,005</u></u>

SPRINGPORT/CLARENCE REGIONAL FIRE BOARD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – LEASE COMMITMENTS:

The Fire Board has an operating lease with the Village of Springport for its fire station. Rent for the year ended February 28, 2005 was \$1.00. In September 2003 the SCFB entered into a lease agreement for its fire station. There is no set expiration date, and the rent is set at \$1 annually. Rent paid by the SCFB during the year ended February 28, 2005 totaled \$1.

NOTE 5 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

BUDGET VIOLATIONS:

Public Act #621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the Fire Board's actual and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Board for these funds were adopted to the activity level. For the year ended February 28, 2005 the Board incurred expenditures which were in excess of the amounts appropriated. These variances are as follows:

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Officers salary	\$ 8,558	\$ 11,066	\$ (2,508)
Incident wages	29,331	30,594	(1,263)
Treasurers salary & Office supplies	1,940	1,953	(13)
Other payroll	-	472	(472)

NOTE 6 – PURCHASE OF NEW FIRE TRUCKS:

The fire board approved the purchase of two new fire trucks during 2004. The new trucks will be paid for by Springport and Clarence townships equally. The costs of the new trucks will be \$290,000 with a delivery date of August 2005. The trucks will be titled under the Springport/Clarence Regional Fire Board.

REQUIRED SUPPLEMENTARY INFORMATION

SPRINGPORT/CLARENCE REGIONAL FIRE BOARD
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED FEBRUARY 28, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
Beginning of Year Fund Balance	\$ 57,058	\$ 57,058	\$ 57,058	\$ -
Resources (Inflows)				
Local unit contributions	36,400	35,150	37,000	1,850
Fire and rescue runs	82,000	74,550	77,000	2,450
Interest income	200	100	159	59
Miscellaneous	300	-	681	681
Grants	-	56,938	39,886	(17,052)
Amounts available for appropriation	<u>175,958</u>	<u>223,796</u>	<u>211,784</u>	<u>(12,012)</u>
Charges to Appropriations (Outflows)				
Officers salary	8,150	8,618	11,066	(2,448)
Incident wages	27,000	29,331	30,594	(1,263)
Training wages	12,000	12,000	8,141	3,859
Treasurers salary	1,350	1,350	1,350	-
Social security	7,800	8,000	3,822	4,178
Office supplies	650	590	603	(13)
Professional fees	1,000	2,100	2,088	13
Gasoline & Oil	1,600	1,260	1,258	2
Utilities	5,400	7,318	6,542	776
Repairs and maintenance	10,000	5,450	5,268	182
R & M radios	600	300	280	20
Other payroll		-	472	(472)
Training supplies	12,000	12,350	4,044	8,307
Insurance	27,000	28,150	25,310	2,840
Insurance	800	1,050	90	960
Miscellaneous	2,500	4,700	3,761	939
Depreciation		-	2,401	(2,401)
Contingencies	5,050	-	2	(2)
Capital outlay	8,000	3,400	42,005	(38,605)
Total Charges to Appropriations	<u>130,900</u>	<u>125,967</u>	<u>149,096</u>	<u>(23,129)</u>
Budgetary Fund Balance-February 28	<u>\$ 45,058</u>	<u>\$ 97,829</u>	<u>\$ 62,688</u>	<u>\$ (35,141)</u>

The accompanying notes are an integral part of these financial statements.

ADDITIONAL INFORMATION

SPRINGPORT/CLARENCE REGIONAL FIRE BOARD

STATEMENT OF ACTIVITIES - DETAIL

FOR THE YEAR ENDED FEBRUARY 28, 2005

EXPENSES:

Officers salary	\$	11,066
Incident wages		30,594
Training wages		8,141
Treasurers salary		1,350
Social security		3,822
Office supplies		603
Professional fees		2,088
Gasoline/Diesel		1,258
Utilities		6,542
Repairs and maintenance		5,268
R & M radios		280
Other payroll		472
Training supplies		4,044
Insurance		25,310
Insurance		90
Miscellaneous		3,761
Depreciation		2,401
Contingencies		2
Capital outlay		-
Total expenditures		<u>107,091</u>

REVENUE:

Local unit contributions	37,000
Fire and rescue runs	77,000
Interest income	159
Miscellaneous	681
Grants	39,886
Total revenues	<u>154,726</u>

Excess of Revenues Over (Under) Expenditures 47,635

Net Assets - Beginning 57,058

Net Assets - Ending \$ 104,693

The accompanying notes are an integral part of these financial statements.

MARKOWSKI & COMPANY

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MEMBERS:
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OF SOUTH CENTRAL MICHIGAN

COMMUNICATION OF AUDITOR/CLIENT RESPONSIBILITIES

Board of Trustees
Springport/Clarence Regional Fire Board

We have audited the basic financial statements of the Springport/Clarence Regional Fire Board for the year ended February 28, 2005, and have issued our report thereon dated July 14, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated May 19, 2005 our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable but not absolute, assurance that the basic financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of the Springport/Clarence Regional Fire Board. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Springport/Clarence Regional Fire Board are described in Note 1 to the basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year.

We noted no transactions entered into by the Springport/Clarence Regional Fire Board during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Springport/Clarence Regional Fire Board that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We proposed no audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the Springport/Clarence Regional Fire Board's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the basic financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's basic financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Springport/Clarence Regional Fire Board's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit. We were especially pleased with the cooperation of the treasurer, Sheryl Proteau.

We did note certain items which we believe warrant some attention from the Board. These can found in the attached Accounting Memorandum.

This information is intended solely for the use of the Board of Trustees and should not be used for any other purpose. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

A handwritten signature in cursive script that reads "Markowski & Company".

MARKOWSKI & COMPANY CPAs

July 14, 2005

**ACCOUNTING MEMORANDUM
COMMENTS AND RECOMMENDATIONS
FOR THE YEAR ENDED FEBRUARY 28, 2005**

SEGREGATION OF DUTIES

Because the Springport/Clarence Regional Fire Board's administrative staff consists of one person, *proper* segregation of duties cannot be accomplished. This is an inherent weakness in the internal controls of the Springport/Clarence Regional Fire Board. This weakness will be a concern every year.

To counter this weakness, the Board needs to be more involved in financial activities. Approval of bills for payment should take place at each meeting. A copy of the treasurer's report should be attached to the minutes, which indicates the bills to be paid. After Board members have given approval and reviewed the treasurer's report it should be documented in the minutes. Board policy should also establish authority for the Treasurer to pay certain bills, such as utilities, prior to Board meetings. Supporting documentation (invoices, pay sheets, etc.) should be available at the meeting for review.

EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. When creating the budget the Boards should keep in mind that the financial statements will be done using the modified accrual method, therefore the budget should be based on modified accrual method. This means that revenues for the fiscal year will include changes for February runs, even though the Fire Board doesn't receive this money until March. Accordingly, expenses for the fiscal year will include accruals for February bills received and paid after the fiscal year end, and for February payroll hours paid after fiscal year end. We recommend that the Board continue to monitor and amend the budget as necessary.

APPROVED VENDOR LIST

A recent trend in fraud cases has been for the perpetrator to either create a fictitious vendor, or replace a check written to an approved vendor, or replace a check written to an approved vendor with one to someone else. As a means of protecting yourself, we recommend that the Board approve a list of vendors (and limit issuance of checks to only persons or companies named on that list). We would also suggest that a board member independent of the treasurer receive the bank statements and promptly review the transactions and cancelled checks for any unusual activity. Upon completion of this review, the statement should be given to the treasurer for processing.

CONDITION OF RECORDS

We feel it is appropriate to commend the Board's treasurer, Sheryl Proteau, for maintaining well organized records. While there are advantages to using computerized accounting software, Sheryl's record keeping was excellent and easy to audit. Both Sheryl and Chief Cox were very helpful and cooperative throughout our engagement.